

# U.S. EPA Office Of Inspector General

## Grant Fraud Case Study

(Based on a True Story)

**June 2016**

# Introduction

**The story you are about to hear is true. The resolution of the matter is currently under appeal. All names (and a few of the facts) have been changed to protect the innocent?**



# Background

**In the early 2000's, EPA became concerned about the effects of the high lead content in blue stars. These blue stars have been excessively used on helmets, automobiles, and personal apparel since 1960.**

**Research has shown that these blue stars are harmful to humans. Long term effects included forgetting where you live, arrogance, poor performance, and a belief that one is a member of America's team.**



# Background



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# Background

**In 2006, EPA proposed a rule that would establish new requirements for reducing the hazards stemming from blue stars. This became known as the ABS Rule.**

**The Agency issued a supplemental proposal in June 2007, that became final in 2008, but would not be effective for ABS activities until two years later.**



# Requests for Grant Proposals

**In February 2007, the Agency issued an announcement requesting grant proposals for projects to reduce incidences of lead poisoning resulting from blue stars. Particular attention would be given to grantees promoting Lead Safe Work Practices (LSWP).**



# Training Criteria

**Training on lead-safe work practices could be given to manufactures, equipment managers, retailers, players, and others.**

**Training would be developed based on the 2006 requirements since the 2007 supplemental proposal would not be effective for at least three more years.**



# Blue Star

**The Blue Star Environmental Remediation Service (BS'ers) responded to the announcement in May 2007. The BS'ers were seeking \$250,000 in EPA funds to ...identify and target areas at risk that have been prone to lead poisoning from blue stars... through education, outreach, and infrastructure development.**

**Dez Romo was its Program Manager and Tony Bryant was the Executive Director.**





# Goal 1

**Develop an advisory board of elected officials, government agencies, manufactures, workers, retailers, faith and community based nonprofits and others to “brainstorm” about the dangers of lead poisoning resulting from blue stars.**



## Goal 2

**Conduct 75 one-hour workshops on Lead Safe Work Practices (LSWP) in impacted areas and train 1,125 community members.**

**The BS'ers were to distribute 7,500 tote bags with educational material on blue star lead hazards.**



## Goal 3

**Conduct 30- eight hour LSWP courses for manufactures, business owners, players, and workers, with the goal of training 750 individuals.**



# Proposed Goal 3 Costs

\$80,000 - Training

\$12,500 - Stipends for trainees

\$ 2,800 - Rental Classrooms

\$12,000 - Tote bag and materials



# Goal 4

**Produce 3 – 90 minute “Best Practice” videos targeting players, commentators, and impacted individuals.**

**1,000 copies are to be distributed to the three target audiences.**



## Goal 5

**Produce 1 – 90 minute video on how local governments can help prevent lead poisoning from blue stars.**

**500 copies are to be distributed.**



## Goal 6

**Produce 1 – 90 minute update  
video on new laws,  
ordinances, and tools.**

**250 copies are to be  
distributed twice a year.**



# Proposed Video Costs

Production Equipment	\$42,000
Consultant	\$ 2,000
Booklets and Manuals	\$ 4,500





# **Proposed Cost Sharing**

**BS'ers Program Manager, Dez Romo, would not be paid a salary through the grant.**

**Dez Romo will also provide all travel and per diem expenses.**



# Grant Award

**In September 2007, EPA awarded a \$250,000 grant to the BS'ers with a period of performance ending August 31, 2008.**

**Grant terms required that the BS'ers provide EPA with quarterly progress reports, and notify the Agency of problems, delays, or adverse conditions which would materially impair its ability to meet the outcomes specified in its proposal.**



# Grant Execution

**The problems begin!**



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# Grant Extensions

**At the BS'ers request, EPA extended the budget and project period three times such that the grant ended June 30, 2011.**

**Difficulty putting together the advisory committee (Goal 1)**

**Inability to find recruits for the 8-hour LSWP course (Goal 3)**

**Difficulty obtaining interns to assist with the production of the videos (Goals 4, 5, and 6).**



# What was really going on

**The BS'ers could not assemble the advisory committee due to “local political factors” and the 2008 recession.**

**Additional funding for the regional conferences and training did not materialize.**

**The BS'ers could not find sponsors for the tote bags.**



# What was really going on

**The BS'ers outreach efforts for Goal 2 and 3 training efforts were ineffective.**

**The BS'ers decided to revise the training curriculum to reflect EPA's supplemental regulations, but they were not accredited to deliver the revised curriculum.**

**Production of the videos were delayed due to lack of funding and BS'ers decision to revise the curriculum.**



# Grant Payments

**The BS'ers spent all the grant funds by October 2008.**

**On October 18, 2009, the BS'ers submitted its Final Financial Report (FFR). The FFR documented that the BS'ers had received \$249,870 of the \$250,000 grant.**

**In March 2011, the Agency began procedures for closing out the grant.**

**The Agency became concerned about the BS'ers lack of results from the grant, and requested additional information.**



# Information Requests

**In May 2011, the Agency requested detailed information about grant expenditures, the number of individuals participating in the BS'ers training programs, and copies of the finished DVDs.**

**In January 2012, the BS'ers posted a draft version of the DVDs on YouTube.**

**The Agency was concerned about the use of EPA's logo in the videos, as well as the videos poor quality.**

**In September 2012 the Agency requested revised videos and documentation related to the training the BS'ers were to perform under Goals 2 and 3.**





# Information Requests

**After several versions of the videos went back and forth, the Agency rejected them in their entirety on August 9, 2013.**

**EPA cited that the videos were unacceptable based on production quality and information content. EPA directed that the BS'ers discontinue its development of any further versions of the videos.**



# Inspector General

**In August 2011, the Agency turned to the Office of Inspector General for help, and requested an audit of the BS'ers.**

**In September 2011, the EPA OIG Office of Audit referred the case to the EPA OIG Office of Investigations. This referral identified possible embezzlement, misuse of government equipment, and failure to pay taxes.**



# Investigation

**Although the Office of Investigations was able to confirm the auditors concerns, the case was not accepted by the US Attorneys Office. The case was rejected for prosecution due to materiality and lack of criminal intent.**

**The Office of Investigations referred the case back to the Office of Audit in September 2012 for audit.**



# OIG Audit

**We conducted the examination to determine whether the costs claimed under the grant were reasonable, allowable, and allocable in accordance with applicable laws, regulations, and grant terms and conditions.**

**We also sought to determine whether the objectives of the grant were met.**



# OIG Audit

**The dog ate the BS'ers homework!**

**There was no general ledger – The BS'ers hard drive crashed in 2010. All GL data and records of training classes held were lost.**

**According to Dez Romo, the CPA, Jason Jones, had all the records. However, the CPA had no records, and was not hired until 2011 to help with the grant close out.**



# OIG Audit

**Dez Romo made all the accounting entries and kept the books himself.**

**No tax returns were prepared for the BS'ers. There were no 990's, 1099's, payroll tax filings, 941's or 940's.**

**Two months after the start of the audit a general ledger materialized.**

**Tax filings for 2007, 2008 and 2009 were prepared on April 1, 2013. We do not know if they were ever submitted.**



Table 1: Summary of questioned costs

# Results of Audit

Cost category	Amount claimed	Costs questioned	
		Ineligible	Unsupported
Labor and fringe benefit	\$100,590	-	\$100,590
Contract	40,152	-	40,152
Equipment	52,520	\$1,219	29,133
Stipend	26,700	-	26,700
Rental payment	8,500	-	8,500
Supplies	1,288	-	1,288
Travel	473	-	473
Meals and entertainment	173	173	-
Other	11,513	-	11,513
Costs claimed in excess of costs reported in general ledger	7,961	-	7,961
Total project costs	\$249,870	\$1,392	\$226,310
Total costs questioned	227,702		
Allowable project costs	22,168		
Allowable federal share (100%)	22,168		
Cumulative cash draw	249,882		
Amount due EPA	\$227,714		



# Labor and Fringe

Labor & Fringe Benefit Costs from General Ledger				
Date	Num	Name	Split	Amount
9/27/2007	502	Dez Romo	Payroll Expenses	12,000
10/17/2007	1004	Dez Romo	Payroll Expenses	8,490
11/6/2007	1008	Dez Romo	Payroll Expenses	4,000
2/25/2008	1017	Dez Romo	Payroll Expenses	4,000
10/16/2008	1102	Dez Romo	Payroll Expenses	3,500
11/12/2007	1009	Dez Romo	Payroll Expenses	5,000
1/22/2008	1012	Dez Romo	Payroll Expenses	4,500
2/6/2008	1015	Dez Romo	Payroll Expenses	4,500
3/10/2008	1018	Dez Romo	Payroll Expenses	5,000
3/28/2008	1020	Dez Romo	Payroll Expenses	4,500
4/7/2008	1022	Dez Romo	Payroll Expenses	4,500
4/18/2008	1029	Dez Romo	Payroll Expenses	4,500
5/7/2008	1031	Dez Romo	Payroll Expenses	4,500
5/27/2008	1034	Dez Romo	Payroll Expenses	4,500
6/16/2008	1036	Dez Romo	Payroll Expenses	4,500
6/30/2008	1037	Dez Romo	Payroll Expenses	4,600
7/10/2008	1039	Dez Romo	Payroll Expenses	4,500
8/1/2008	1041	Dez Romo	Payroll Expenses	4,500
8/21/2008	1043	Dez Romo	Payroll Expenses	4,500
8/21/2008	1045	Dez Romo	Payroll Expenses	4,500
		Total		100,590





# Contract Costs

<b>Dez Romo &amp; Associates</b>	<b>\$ 20,151.56</b>
<b>Tony Bryant Center</b>	<b>\$ 20,000.00</b>



# Equipment Costs

Equipment Costs from General Ledger				
Date	Num	Name	Split	Amount
4/10/2008		check	Movie Production Equipment	1,744.85
8/26/2008		B and H Photo	Movie Production Equipment	21,641.94
8/29/2008		Walmart	Movie Production Equipment	571.33
9/29/2008	1050	Calumet	Movie Production Equipment	2,839.44
10/7/2008		Dez Romo	Movie Production Equipment	2,350.00
10/24/2008	1051	Rimage Systems	Movie Production Equipment	23,372.00
		Total		52,519.56



# Equipment Costs



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# Equipment Costs



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# Stipend

Stipends to Day Laborers from General Ledger			
Num	Name	Split	Amount
1007	check	Stipend to Day Laborers	1,960
1011	check	Stipend to Day Laborers	1,100
	ATM Withdrawal	Stipend to Day Laborers	1,100
1025	check	Stipend to Day Laborers	850
1026	Dez Romo	Stipend to Day Laborers	3,000
	ATM Withdrawal	Stipend to Day Laborers	300
1033	check	Stipend to Day Laborers	900
	ATM Withdrawal	Stipend to Day Laborers	2,420
1047	Dez Romo	Stipend to Day Laborers	1,000
1048	Dez Romo	Stipend to Day Laborers	5,000
1049	Dez Romo	Stipend to Day Laborers	1,000
	Dez Romo	Stipend to Day Laborers	3,000
	ATM Withdrawal	Stipend to Day Laborers	600
	check	Stipend to Day Laborers	800
	ATM Withdrawal	Stipend to Day Laborers	300
1104	Dez Romo	Stipend to Day Laborers	900
1105	Dez Romo	Stipend to Day Laborers	1,650
	ATM Withdrawal	Stipend to Day Laborers	820
	Total		26,700.00



# Rental Costs

Rental Costs from General Ledger JMT				
Date	Num	Name	Split	Amount
10/17/2007	1002	Tony Bryant	Rent, Parking, Utilities	1,000
10/17/2007	1003	Dez Romo & Associates	Rent, Parking, Utilities	1,000
11/12/2007	1010	check	Rent, Parking, Utilities	1,000
11/23/2007	1005	Dez Romo & Associates	Rent, Parking, Utilities	500
1/22/2008	1013	Dez Romo & Associates	Rent, Parking, Utilities	500
2/6/2008	1016	Dez Romo & Associates	Rent, Parking, Utilities	500
3/10/2008	1019	Facility Rental	Rent, Parking, Utilities	500
5/27/2008	1035	Dez Romo & Associates	Rent, Parking, Utilities	500
8/1/2008	1042	Office Rent	Rent, Parking, Utilities	1,000
8/21/2008	1044	Facility Rental	Rent, Parking, Utilities	1,000
10/16/2008	1103	Facility Rental	Rent, Parking, Utilities	1,000
		Total		8,500





# Rental Costs



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# Rental Costs



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# Supplies

Supply Costs from General Ledger			
Date	Name	Split	Amount
10/30/2007	Fry's Electronics	Supplies	87
11/29/2007	Dez Romo & Associates	Supplies	300
1/7/2008	Office Depot	Supplies	610
1/18/2008	Fry's Electronics	Supplies	22
5/15/2008	Office Depot	Supplies	27
7/28/2008	Target Stores	Supplies	46
7/30/2008	Fry's Electronics	Supplies	38
10/7/2008	Harland Checks	Supplies	60
10/9/2008	ATM Withdrawal	Supplies	40
10/27/2008	Office Max	Supplies	59
	Total		1,288



# Meals & Entertainment

Meals & Entertainment Costs from General Ledger			
Date	Name	Split	Amount
10/19/2007	Meals & Entertainment	Meals & Entertainment	21.10
10/29/2007	Panda Express	Meals & Entertainment	7.99
11/29/2007	Meals & Entertainment	Meals & Entertainment	40.00
12/28/2007	Starbucks	Meals & Entertainment	8.90
1/17/2008	Jack in the Box	Meals & Entertainment	7.45
2/1/2008	China Moon	Meals & Entertainment	15.47
2/4/2008	Chick fila	Meals & Entertainment	5.34
2/11/2008	Starbucks	Meals & Entertainment	5.50
4/11/2008	Los Cabos	Meals & Entertainment	25.83
4/18/2008	Ludy's	Meals & Entertainment	32.84
6/2/2008	McDonald's	Meals & Entertainment	2.24
	Total		172.66



# Other Costs

## Miscellaneous Other Direct Costs From General Ledger

Item #	Num	Name	Split	Amount
	1	Mrs Tony Bryant	Accounts Payable	78.05
	2	Harland Checks	Accounts Payable	30.26
	3	USPS	Postage, Mailing Service	26.05
	5	Dez Romo and Associates	Printing and Copying	3,000.00
	6	FedEx Kinkos	Printing and Copying	255.86
	8	Bay Copy	Printing and Copying	195.00
	10	PS Print	65030 · Printing and Copying	339.91
	11	Copy Edge	65050 · Telephone, Telecommunications	661.85
	12	AT&T	Telephone, Telecommunications	1,297.35
	20	ATM Withdrawal	Automobile	2,672.23
	81	Intuit software	Software	183.79
	82	Adobe Systems	Software	1,092.88
	83	Misc. meals and Entertainment	Conference, Convention, Meeting	10.37
		Bank Fees		1,669.40
		Total		11,513.00



# Resolution

Cost category	Costs questioned			
	Claimed	Ineligible	Unsupported	Sustained
Labor and fringe benefit	\$100,590	-	\$100,590	\$100,590
Contract	40,152	-	40,152	40,152
Equipment	52,520	\$1,219	29,133	4,636
Stipend	26,700	-	26,700	26,700
Rental payment	8,500	-	8,500	8,500
Supplies	1,288	-	1,288	1,288
Travel	473	-	473	473
Meals and entertainment	173	173	-	173
Other	11,513	-	11,513	11,513
Costs claimed in excess of costs reported in general ledger	7,961	-	7,961	7,961
Total project costs	\$249,870	\$1,392	\$226,310	\$201,986



# What happened in Resolution

The Attorney representing BS'ers, Jerry Garrett, asserted that the issue is not the BS'ers costs, but rather the EPA's breach of contract. He asserted the spirit of the grant was completed and EPA breached the contract by refusing to grant the BS'ers the approval to finish the remaining tasks. In addition, the BS'ers requested an additional \$100,000 for the Agency's breach.



# What happened in Resolution

Although unclear, we found the additional costs included \$84,160 in unpaid DVD production costs incurred under a subcontract and \$48,807 for the BS'ers labor costs incurred in responding to EPA audits and investigations.



# What happened in Resolution

In March 2016, the Agency made its Final Determination on the OIG Audit.

The Agency disallowed the \$249,870 questioned by the OIG.

Agency allowed \$12,000 for audit response costs incurred prior to the June 2011 ending date as an offset.

Granted a deviation and allowed an offset of \$112,105 for Audit Response costs incurred after June 30, 2011, and the production of DVDs after the grant period ended.



# What happened in Resolution

Declined to allow an \$84,160 offset for DVD production costs incurred under an unpaid subcontract. The subcontractor in question, was owned by Dez Romo.

Asserted a claim for recovery of \$125,765 for the remaining unallowable costs.



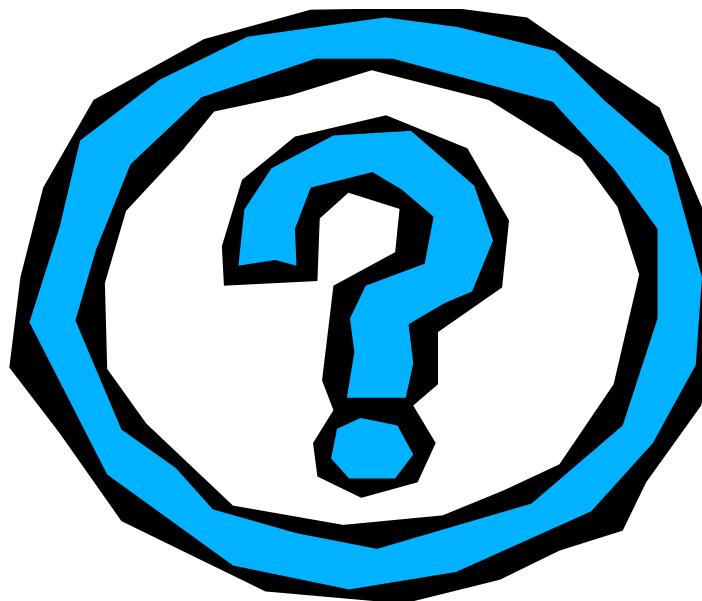


# Appeal

The Agency's Final Determination is under appeal. The BS'ers asserted the final decision amounted to Monday morning quarterbacking at best and at worse a disconcerting abuse of governmental resources to effectuate and propagate false narratives that border on intellectual gyrations/abuse, financial acrobatics and bureaucracy bullying.



# Questions



# Contact Information

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